

Archived Information

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Introduction

This *Exit Counseling Guide for Counselors (Counselors' Guide)* is designed to help school financial aid administrators present effective exit counseling sessions for borrowers of Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans). Both loans are part of the William D. Ford Federal Direct Loan Program (Direct Loan Program).

The *Counselors' Guide*, the companion video, and the *Exit Counseling Guide for Borrowers (Borrowers' Guide)*, along with the entrance counseling materials, constitute the *William D. Ford Federal Direct Loan Program Counseling Kit*. The exit counseling materials highlight key loan repayment information and financial

management concepts. Suggestions for using the video and coordinating it with the *Borrowers' Guide* are provided at the end of this *Guide*.

Financial aid administrators can use these materials to organize their presentations, focus on the issues they believe to be most important to their students, and cover the information necessary to comply with U.S. Department of Education (ED) regulations governing exit counseling (34 CFR 685.304[b]).

ED is providing these materials to schools as optional counseling tools. Schools are not required to use them.

The William D. Ford Federal Direct Loan Program is authorized by Title IV, Part D, of the Higher Education Act of 1965, as amended.

What Is Required

A school participating in the Direct Loan Program is required, by law, to provide exit counseling to borrowers of Direct Subsidized Loans and Direct Unsubsidized Loans shortly before these borrowers graduate, withdraw, or otherwise cease to attend school at least half time.

Federal regulations allow schools to conduct exit counseling in person, by using a video with a financial aid expert available to answer questions or by using computer-assisted technology.

If a borrower withdraws from school without a school's knowledge, or if a borrower fails to attend a scheduled exit counseling session, a school must mail the written exit counseling material to the borrower at his or her last known address. The materials must be mailed within 30 days after a school learns either that the borrower has withdrawn or that the borrower failed to attend the scheduled counseling session.

A school must maintain documentation in the borrower's file to show that the borrower received the required exit counseling, either in person or by mail. On page 33 of the Borrower's Guide, you will find a tear-out sheet that may be used for this purpose.

Regulatory Requirements

In accordance with 34 CFR 685.304(b), when conducting exit counseling, a school is responsible for:

- Informing the borrower of the average anticipated monthly payments for the borrower's loans (student-specific materials the Direct Loan Servicing Center prepares upon request may be used for this purpose);
- Reviewing the available repayment options (that is, the Standard, Extended, Graduated, and Income Contingent Repayment Plans) and loan consolidation;
- Suggesting debt-management strategies that the school determines would assist the borrower in repaying the loans;
- Reviewing the conditions under which the borrower may defer repayment or obtain discharge (cancellation) of loans;
- Requiring the borrower to provide any changes to the institution's records concerning his or her
 - Name,
 - Address,
 - Social Security Number,
 - References,
 - Driver's license number and state of issuance, and
 - Name and address of expected employer;

- Providing any changes to the borrower information listed above to ED within 60 days of receiving the updated information;
- Emphasizing the seriousness and importance of the repayment obligation the borrower has assumed;
- Describing in forceful terms the likely consequences of default, including a damaged credit rating, legal action being taken against the borrower, and forced repayment by wage garnishment; and
- Explaining to the borrower how to contact the Direct Loan Servicing Center.

Secretary's Recommendations

- The U.S. Secretary of Education also recommends that your school's exit counseling sessions include other topics, listed in Appendix D of 34 CFR 668, such as:
- Reminding borrowers to keep the Direct Loan Servicing Center informed of any changes in name, address, telephone number, employer, or enrollment status that might occur during the lives of their loans;
- Reminding borrowers that they must repay the full amounts of their loans, plus interest, even if
 - They do not complete their program of study (for reasons other than school closure or false certification of loan eligibility), or
 - They do not like their schools or programs of study, or
 - They do not obtain employment after completing their programs of study;

- Reviewing critical information by having students complete the review exercise on page 22 of the Borrowers' Guide;
- Counseling borrowers on budgeting and other aspects of personal financial planning;
- Informing borrowers that there is no penalty for early repayment of their loans;
- Reviewing loan terms and conditions, including interest rates and loan fees;
- Reminding borrowers to contact the Servicing Center if they have questions or any difficulty making a payment; and
- Providing guidance on preparing correspondence to the Servicing Center and completing deferment forms.

Most of these topics are covered in the *Borrowers' Guide*.



Borrowers must
repay the full
amounts of
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Administrative Considerations

Presenters of loan counseling information should be sensitive to students' varying levels of understanding of the terms of their loans and their repayment responsibilities. Some student borrowers will be anxious about the prospect of repaying a loan, perhaps for the first time. Be sure to let students know that help is always available from the school's financial aid office and from the Direct Loan Servicing Center, even after they have left school. Make sure your students have (or know how to locate) the address and toll-free telephone number of the Servicing Center. That information appears on all correspondence the student receives from the Servicing Center.

Organizing Counseling Sessions

The format of your exit counseling sessions should be based partly on your school's student demographics and available resources. For example, the number of Direct Loan borrowers exiting your school at a given time may determine whether the counseling is done on an individual or a group basis. This also will influence the number of sessions offered, their timing, and the size of the rooms to use.

Other factors, such as your school's graduation rate or default rate, might affect which areas of the counseling material you decide to emphasize in your presentation.



Scheduling Counseling Sessions

Most students attending exit counseling will be preparing to complete their programs of study. Because these students tend to get busier as the end of the term or program approaches, your school should plan to conduct exit counseling sessions in advance of the "final crunch". This will help ensure a higher attendance rate and a more attentive audience.

Exit counseling should be convenient for students. If your school has a number of commuting students, you might offer sessions on weekends or evenings. If you have a residential campus, you might want to conduct sessions in dormitories in the evenings.

Seating limitations and group size will also affect scheduling. For optimum student participation, group sessions should have no more than 30 borrowers. Sessions larger than this might discourage questions or make it difficult for you to answer all student questions adequately. If groups are too large, it is difficult to evaluate the effectiveness of the counseling sessions. You may use a survey or questionnaire to evaluate your counseling sessions.

Notifying Borrowers

Schools are required to conduct exit counseling. They may do it in person, via the web, or use the Direct Loan counseling videos. It is important that your school has a procedure in place for predicting when individual students will be leaving your school. For example, the financial aid office could obtain from the registrar's office a list of students who are scheduled to graduate or complete a program in a given month. This list could be used to identify Direct Loan borrowers and to notify them of the date, place, and time of their legally required exit counseling session. It will, of course, be more difficult to find out in advance that students are dropping below half-time status or withdrawing; however, your school should make every effort to contact these students about exit counseling.

You should strongly encourage students to attend these counseling sessions. Your school should consider sending written notices—a letter, postcard or other form of communication—to notify students of the sessions. The notices should emphasize the importance of the session and stress that it presents a valuable opportunity to get the repayment process off to a good start.

Your school may develop institutional policies that preclude students from receiving diplomas or obtaining academic transcripts until they have completed exit counseling. Such measures are taken at the discretion of the institution or the state and are not regulated by the U.S. Secretary of Education, although the Secretary supports such measures.

Understanding the Direct Loan Program and the Role of the Direct Loan Servicing Center

Your students should already understand that ED made their loans to them and they should have already received communications from the Direct Loan Servicing Center.

The address and telephone number of the Servicing Center location will appear on all correspondence the students receive from the Servicing Center. Students should always use that information to contact the Servicing Center. If students misplace that information, they can call 1-800-848-0979.

Borrowers are responsible for repaying their loans and must stay in contact with the Direct Loan Servicing Center during the life of their loans.

If students at your school previously borrowed from the Federal Family Education Loan (FFEL) Program, it is important that they understand the differences between those federal loans and Direct Loans. For example, many of the loan terms are similar, but the repayment options differ (see pages 5-9 of the Borrowers' Guide). Remember that you will need to supplement Direct Loan exit counseling materials with FFEL information for these students.

You need to remind borrowers that it is essential that they stay in contact with the lender(s) of other federal student loans they have and that all of their federal student loans must remain in good standing.



Borrowers are responsible for repaying their loans and must stay in contact with the Direct Loan Servicing Center during the life of their loans



If your school
uses a video,
you must also
have a financial
aid expert on
hand to answer
students'
questions

Students who have different types of federal student loans may benefit from Federal Direct Consolidation Loans (see page 11 of the Borrowers' Guide). A Direct Consolidation Loan will simplify repayment for these borrowers because they will make only one payment a month that covers all their loans. Interested students should contact ED's toll-free Consolidation number, 1-800-557-7392.

Necessary Equipment and Facilities

The exit counseling video is easy to show to student borrowers. The only requirements are a television (or monitor) and a VHS-compatible VCR.

You also need to be confident that your video presentation and facility are accessible to all students and that arrangements are made to accommodate any borrowers with special needs. The video is closed-captioned for hearing-impaired students. You might need to make preparations for students who use wheelchairs or those who are blind or visually-impaired.

Accompanying Materials

Helpful materials to distribute during exit counseling sessions include:

- The Exit Counseling Guide for Borrowers for the Direct Loan Program;
- Student-specific materials prepared by the Servicing Center upon your request;
- The Direct Loan promissory note and disclosure statement;
- The Direct Loan borrowers' rights and responsibilities statement;

- A copy of your school's policy for requesting/releasing academic transcript information and a sample transcript request form; and
- Information about your school's career planning or placement services.

In addition, we suggest you stamp the name of your school and the address and telephone number for the financial aid/loan office in the "For School Use" box on the back cover of the Borrowers' Guide.

Documenting Exit Counseling

Federal regulations require that schools maintain documentation in the borrower's file to show that the borrower received the required exit counseling. When signed, the tear-out Borrower Information/Rights and Responsibilities Checklist sheet (pages 32 and 33 of the Borrower's Guide) will satisfy this documentation requirement. As part of the school's presentation, students can be asked to complete the forms and hand them to a school official before they leave the session. When schools must mail the exit counseling material to students, they may want to include a cover letter that instructs students to complete and return this tear-out sheet to the school after reading the exit counseling material.

Remember that federal regulations require schools to report changes in a borrower's name, address, Social Security Number, references, driver's license number and state of issuance, and name and address of the expected employer within 60 days of receiving this updated information.

Your Presentation

To enhance sessions, use of a video is allowed under Appendix D, 34 CFR 668. A school official with knowledge of Title IV programs must be present both during and after the video presentation to lead the discussion and answer questions. This individual could be the financial aid administrator, business officer, or other trained individual.

Exit Counseling Tips

These exit counseling materials, including the video and *Borrowers' Guide*, provide basic information about borrowers' repayment obligations and, with one exception, include the information necessary to meet the U.S. Department of Education's Direct Loan counseling requirements. The school must add information about the borrower's average monthly payment amount, as discussed on page 2 of this *Counselors' Guide*. The school may use student-specific materials prepared by the Servicing Center to satisfy this requirement. The presentation should mention that the *Borrowers' Guide*, web site and Direct Loan Servicing Center are all resources for loan information.

The video and *Borrowers' Guide* are designed to help borrowers manage their loans successfully once they leave school. While students might not remember all the information, they are likely to remember the sources where they can find answers when they need them.

Various debt-management strategies are presented throughout the *Borrowers' Guide* and in the video. Topics such as budgeting, selecting a repayment plan, loan consolidation, prepayment, and staying in touch with the Servicing Center can all be included in a discussion of ways to manage debt.

After showing the video, the school official should be prepared to answer questions, review the *Borrowers' Guide*, and reinforce points made in the video. Topics might include calculating a realistic out-of-school budget using actual income and expenses, and choosing the repayment plan that is right for the individual student. Other topics could include loan consolidation and discussing terms such as grace period, discharge (cancellation), capitalized interest, prepayment, deferment, forbearance, and default.

It is a good idea to make a record of the questions commonly asked during exit counseling sessions and then create a question-and-answer sheet to use as a handout in later sessions or to include in loan information packets for students.



Recommended 4-Step Exit Counseling

1. **Introduce the Session.** Give students an overview of what they will be seeing and what you will be discussing during the session.
2. **Show the Video.** The video is approximately 15 minutes long. It covers **most** of the critical information that borrowers leaving school need to know.
3. **Review the *Exit Counseling Guide for Borrowers*.** Before answering questions, you might want to go over the *Borrowers' Guide* with students to make additional points and to emphasize important concepts, such as the Servicing Center, repayment plans, and consequences of default. For your convenience, the following pages provide a presentation outline. The outline closely follows the *Borrowers' Guide*.
4. **Answer Questions.** The school should provide a student loan expert (this is likely to be you) to answer questions after the video ends and after the *Borrowers' Guide* has been reviewed.

Presentation Outline:

"Reviewing the Borrowers' Guide"

Note to Counselor: The following presentation outline is written as a script so that you can read from it directly or use it as a guide in preparing your own presentation.

Facts about Repaying Your Direct Loans

Pages 2-17 of the *Borrowers' Guide* present information about aspects of repayment such as the Servicing Center, interest rates, repayment plans, deferment, prepayment, and consolidation.

- The U.S. Department of Education's Direct Loan Servicing Center will help you manage your loans until they are paid in full. The Servicing Center is a resource. If you are having problems making payments or do not understand the terms of your loan, contact them for help.
- Repayment begins six months after you graduate, withdraw, or drop below half-time enrollment.
- The interest rate is variable and will be adjusted annually.
- Capitalizing interest means the unpaid interest will be added to the total amount you owe. You will have to pay back more money than if you did not capitalize.

Repayment Plans

Beginning on page 4, the *Borrowers' Guide* describes the four repayment plans. These plans are intended to make repayment as easy as possible for you. The plans are the Standard, Extended, Graduated, and Income Contingent Repayment Plans.

Shortly before you are scheduled to begin making payments, the Direct Loan Servicing Center will contact you to request that you select a repayment plan. It is important that you respond to this notice because if you do not choose a plan, your loans will be placed in the Standard Repayment Plan. You may switch plans at any time and for any reason as long as the maximum repayment period under your new plan is longer than the amount of time your loans have already been in repayment. (There is a restriction on switching plans if you are repaying a defaulted loan under the Income Contingent Repayment Plan. You should check with the Direct Loan Servicing Center.)

If you can show that none of the four plans adequately meets your needs, you may, at the discretion of the U.S. Secretary of Education and on a case-by-case basis, be offered an alternative repayment plan.

A Direct Consolidation Loan may further simplify your repayment by allowing you to make one monthly payment for all your federal loans. Consolidation is discussed beginning on page 11 of the *Borrowers' Guide*. Consider consolidating your loans while you are still in school or during your grace period to possibly benefit from a lower interest rate. For more information about Direct Consolidation Loans, students should contact ED's toll-free Consolidation number, 1-800-557-7392.



Under the
Standard
Repayment Plan
you would make
a fixed monthly
payment of at
least \$50 for
up to 10 years

The four repayment plans are explained in depth in the *Borrowers' Guide*. In brief, they are as follows:

1. Standard Repayment Plan: Under this plan, you would make a fixed monthly payment of at least \$50 for up to 10 years. For most borrowers, this plan results in the lowest total interest paid, because the repayment period is the shortest of all the plans. However, for most borrowers, Standard repayment will result in a higher initial monthly payment amount than they would have under another plan.

2. Extended Repayment Plan: Under this plan, you would make a fixed monthly payment of at least \$50 over a period that varies from 12 to 30 years, depending on the total amount of Direct Loans borrowed. Since you generally will take at least 12 years to repay under this plan, the monthly payment amount will be lower than it would be under Standard repayment for the same loan amount. Remember, though, the longer you take to repay a loan, the more interest you will pay.

Note: The repayment period could be less than 12 years for borrowers with lower loan amounts because of the required \$50 payment each month.

3. Graduated Repayment Plan: With Graduated repayment, you would make payments over a period that varies from generally 12 to 30 years, depending on the total amount of Direct Loans borrowed. The monthly payment amount increases every two years. If you expect to start out at one income level, then increase to a higher level over time, this may be the best plan for you.

Note that no payment may be less than 50 percent or more than 150 percent of the payment amount you would make under Standard repayment. However, the payment must cover the amount of interest that accumulates monthly.

4. Income Contingent Repayment (ICR) Plan: This plan is designed to make the monthly payment amount sensitive to your income. The monthly payment amount will be calculated and adjusted annually based on your annual Adjusted Gross Income (AGI) and the total amount owed. The amount may not exceed 20 percent of your discretionary income, which equals your Adjusted Gross Income minus the poverty level for your family size, as determined by the U.S. Department of Health and Human Services. ICR is designed to provide you with flexibility to meet your loan obligations without causing undue financial hardship. Under ICR, you may take up to 25 years to repay your loans. Periods of repayment under the Standard and 12-year Extended plans are counted toward the 25-year total. (Periods of payment under the Graduated Repayment Plan or an alternative repayment plan will not be counted toward your 25-year repayment period.) After 25 years, any remaining balance on the loan will be forgiven; the amount forgiven, however, is considered taxable income.

A chart on page 10 of the *Borrowers' Guide* shows estimated beginning monthly payment amounts under each of the four plans. The chart illustrates how, given the same amount of Direct Loans, the monthly payment amount and total amount repaid can vary under each of the plans. You can use these comparisons to help select a plan or just to get an idea of how much you will be repaying. The interest rate is variable and is adjusted once a year on July 1. For all Direct Subsidized and Unsubsidized Loans in repayment, for loans made on or after 7/1/98, the interest rate is equal to the 91-day Treasury bill rate plus 2.3 percentage points. By law, however, your interest rate can never exceed 8.25 percent. (The monthly payment amounts shown in the chart were calculated on the basis of the maximum interest rate of 8.25 percent.)

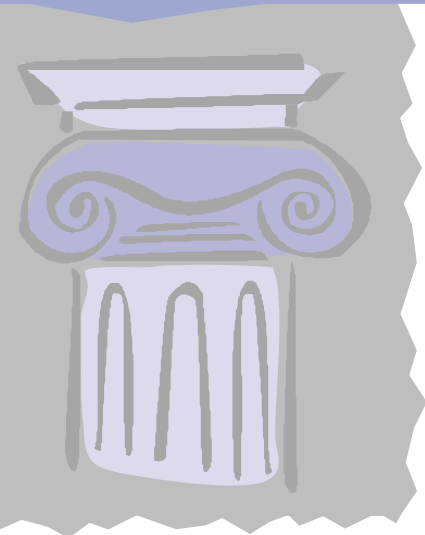
Initial debts ranging from \$2,500 to \$100,000 are on the left side of the chart. Across the top, the four repayment plans are displayed. To use the chart, find the point where the debt row and the repayment plan column meet. There you will find the estimated beginning monthly payment amount and total amount repaid if you choose that plan. For example, if you owe a total of \$20,000 at the time your loans enter repayment and you want to repay your Direct Loans under the Extended Repayment Plan, you would pay \$170 a month, repaying a total of \$40,899.

Under the Income Contingent Repayment Plan, choose the income level that most closely approximates your income when you enter repayment. For example, if you owe \$20,000 and expect to earn \$15,000 a year when you enter repayment, you would start out paying \$119 a month and would repay a total of \$46,910.

In addition, the interactive calculator on the web site (<http://www.ed.gov/DirectLoan/calc.html>) can help you to determine how much you would owe under each repayment plan. The calculator on the web site uses the current interest rate.



The interactive calculator on the web site can help you to determine how much you would owe under each repayment plan



You may prepay
all or part of
your Direct
Loans at any
time, without
penalty

Other Repayment Provisions

Pages 13-19 of the *Borrowers' Guide* explains related repayment concepts, such as consolidation, prepayment, deferment, forbearance, and discharge (cancellation).

- You may prepay all or part of your Direct Loans at any time, without penalty.
- If you have problems repaying your loans, you should contact the Servicing Center to see if you qualify for deferment or forbearance, or if you should change repayment plans. Remember, periods of deferment or forbearance are not included in the total number of years allowed for repayment under any plan.
- Loans can be discharged under certain circumstances.
- You may be able to obtain assistance repaying your loans from a state or local agency, employer, private organization, federal agency, or the military.
- Transferring from one school to another does not necessarily mean that your loans will go into repayment. Contact the Servicing Center to find out your options.
- If you return to school at least half time after your loans have entered repayment, you may qualify for an in-school deferment. Again, contact the Servicing Center to find out your options.

Consequences of Default

On page 20 of the *Borrowers' Guide*, default is defined, and the serious consequences of default are listed. Default occurs when a borrower is more than 180 days late in making a loan payment. The federal government will use every means at its disposal to collect Direct Loans. If loans are not repaid, this can result in

- The entire unpaid balance and accrued interest on your loan becoming immediately due and payable;
- Loss of deferment options;
- Loss of eligibility for additional federal student financial aid;
- Placement of the loan account with a collection agency;
- A damaged credit rating;
- Loss of your federal tax refunds;
- An increase in your total debt resulting from late fees, additional interest, court costs, collection fees, attorney's fees, and other costs;
- Your employer, withholding (garnishing) part of your wages and giving them to the federal government (at the federal government's request);
- The federal government taking legal action against you.

Managing Records

Page 19 of the *Borrowers' Guide* encourages you to keep good records, to maintain copies of all Direct Loan documents, and generally to be organized in managing your loans. Some important records are

- Canceled checks used to make payments on the loan (or bank account statements showing the same information) and
- Copies of all correspondence sent to, or received from, the Servicing Center. (You might want to get a receipt at the post office when sending correspondence to the Servicing Center, so you will have a record of what was sent and when it was sent.)
- A copy of your signed promissory note and disclosure statements sent when the loan was first issued.

Note to the Counselor: The information review on page 20 of the *Borrowers' Guide* includes a self-quiz for students. This is a good point in the presentation to have the students take the quiz.

Important Information

Page 21 of the *Borrowers' Guide* provides space for you to record answers to questions and other important information, such as

- How to obtain your academic transcript from the school;
- The school's address and telephone number; and
- The services offered by the school's career planning or placement office.

Note to Counselor: This is a good time to give students this information and to give them the average anticipated monthly payment amounts for their loans. Upon your request, each Direct Loan Servicing Center location will provide you with customized (student-specific) information for the students it services.

Budgeting

Pages 22-26 of the *Borrowers' Guide* advises you on the importance of budgeting as a means of selecting an appropriate repayment plan and successfully managing your Direct Loan obligations. The *Borrowers' Guide* uses a step-by-step approach to help you create and maintain a budget.

- Budgeting your resources will help you successfully manage your loan(s).
- Budgeting your money means
 - Calculating your income,
 - Calculating your expenses, and
 - Calculating the difference.
- A budget planning worksheet is provided on page 28 of the *Borrowers' Guide*.

An interactive budget calculator is available on the web site (www.ed.gov/DirectLoan).



Budgeting your
resources will
help you
successfully
manage your
loan(s)



The borrower's rights and responsibilities summary is reprinted on the inside back cover of the *Borrower's Guide*

Glossary of Common Direct Loan Terms

This section, beginning on page 27 of the *Borrowers' Guide*, gives you a quick reference sheet and simple definitions of the terms most commonly used in discussing Direct Loans.

Note to Counselor: Borrower Information/Rights and Responsibilities Checklist on pages 31 and 32 of the *Borrowers' Guide* is a tear-out sheet that can be used to document students' attendance at exit counseling and to collect required information. Make sure that students fill in all the requested information and read the 'Rights and Responsibilities' summary printed on the back of the page before they sign the certification on the front.

In the notices you send to students about exit counseling sessions, you may wish to remind them to bring the required reference and employer information with them to the session. You may also want to bring local telephone directories to the session to help students who live nearby to collect this information.

The borrower's rights and responsibilities summary is reprinted on the inside back cover of the *Borrowers' Guide*. Therefore, after students have completed the tear-out sheet on page 31 and returned it to the school, students will have a copy of the information for their records.

Wrapping Up the Presentation

When closing the session, you might add information about:

- Local consumer counseling services that can help borrowers if they have difficulty managing their finances and
- Joining the school's alumni association as a means of networking and locating employment prospects.

Ask your students if they have any remaining questions. Finally, let borrowers know that both the Direct Loan Servicing Center (1-800-848-0979) and the school are always there to help them.

Notes

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